

# Sustainable Investing Policy

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Aristotle  
Capital



2021



ARISTOTLE  
CAPITAL MANAGEMENT

## Introduction

At Aristotle Capital, our philosophy is to invest in what we believe to be high-quality businesses, employing a global perspective and utilizing a long-term investment horizon to build high-conviction portfolios. The fundamental, bottom-up process that we have implemented for over two decades has focused on studying the long-term sustainability of businesses. Through our research, we have found that most sustainable business models make efforts to embrace all their constituents (i.e., customers, employees, suppliers, partners, shareholders and their communities) and incorporate policies to such end. We analyze such corporate policies as part of our work in understanding businesses and their fundamentals. If done in a fair, reasonable and responsible way, we believe that most companies may best be served in the long run by working with all their constituents<sup>1</sup>.

We take into account environmental, social and governance factors as part of our analysis of the quality and sustainability of a business. We believe that over the long term, sustainability and ESG considerations can be strongly interconnected and can have an impact on returns and potential risks of the companies in which we invest. We further action our findings on sustainability and ESG through our engagement practices.

## How is Sustainability Integrated into Our Investment Process?

Our investment process begins with our research team identifying companies that meet our quality criteria, including sustainable competitive advantages and experienced, forward-thinking management teams who we believe to be good stewards of capital. Such focus on quality has led us to favor companies that are transparent in their reporting and disclosures. We believe these companies are also better positioned to anticipate and mitigate business risks over the long term.



## Sustainability: What are We Looking For?

- **Products/Services:** Differentiation through innovation, experience and customer service *versus* lowest price: which can often lead to squeezing suppliers, underpaying employees and/or compromising quality
- **Social/Environment:** Aiming to improve not only their operational efficiency but also their employee safety, environmental footprint and their engagement with their communities
- **Management:** Focus on long-term value creation for all stakeholders *versus* focus on achieving short-term financial targets to increase the stock price
- **Disclosure:** Providing highly-transparent financial statements and conservative disclosure policies

<sup>1</sup>The Essence "The Factory Owner" (October 2013), Aristotle Capital Publication: <https://www.aristotlecap.com/aristotle-capital/>

## Investment Process and Sustainability

Our investment approach is research-centric and rooted in the appreciation of independent thought. As such, our team does not rely on screens or scores generated by others and we refuse to outsource our judgment in any aspect of the investment process. Our investment decisions are the result of years (sometimes decades) of our team's work understanding the long-term sustainability of business models and the impact on future investment risks and returns.

To ensure we remain aware of sustainability-related risks, opportunities, controversies and/or issues, several years ago our firm's Sustainability Team was formed. The team performs a sustainability overlay, using third-party research providers that assesses companies against four overarching pillars: environmental protection, human rights, labor standards, and corruption as defined through the United Nations Global Compact.

Our Sustainability Team also identifies areas of strength and/or weakness in the companies in which we invest, in areas including governance, employee initiatives, climate and environmental disclosure etc.

Issues that could materially impact the companies' fundamentals (*sustainability*) or have the potential to serve as negative developments within our investment horizon. If determined relevant, as with all material company findings, these issues are discussed in more depth within the investment team and then potentially discussed with the company itself. The team is headed by our firm's Co-Chief Investment Officer and it is currently composed of eight additional individuals, three of which are senior members of the investment team. The Sustainability Team has a direct line of communication to Aristotle Capital's board of managers and other senior members of our firm.



## Engagement

Meeting regularly with management teams has always been an important part of our research process. Aside from the regular engagement on strategic long-term goals, risks and financial performance, members of our investment team engage directly with companies to discuss their sustainability policies as well as ESG controversies. Their objective is to establish a dialogue around these specific topics, understand the companies' position and planned steps to provide a resolution. We spend significant time assessing the quality and experience of management before making an investment in a company. In general, we will only invest in companies with shareholder-friendly management teams who we believe to be good stewards of capital and are responsible partners with their employees and the community at large.

## Proxy Voting

We seek to leverage our proxy voting rights in promoting issues that are relevant to the long-term sustainability of our investments and the economic interest of our clients' capital. ESG proposals are analyzed one-by-one by our investment team and voting rationales are documented accordingly. In addition, for clients who feel strongly about exercising their voting rights on particular issues, we encourage them to vote proxies directly or through a designated third party. We can provide assistance to put this voting authority in place.



## Summary

We take into account environmental, social and governance factors as part of our analysis of the quality and sustainability of a business, as well as any potential risks. We believe that over the long-term, sustainability and ESG considerations can be strongly interconnected and can have an impact on risks and returns of the companies in which we invest. While today, many of these important topics are labeled by others as “ESG factors”, our investment team has long-held these factors as essential to long-term business sustainability. Ultimately, we believe our research supports our main objective: the successful execution of our investment philosophy and process with the goal of preserving and growing our clients’ capital while seeking to mitigate risk.



Signatory of:



PRI Signatory since  
August 2019



CDP Member since  
December 2019



ICGN Member since  
December 2020







## SUPPLEMENTAL INFORMATION & FREQUENTLY ASKED QUESTIONS

### How Does Aristotle Capital Define Responsible Investing and Materiality?

At Aristotle Capital, responsible investing means seeking to understand business models and companies and invest in only those businesses that meet our stringent quality criteria. With fundamental bottom-up analysis at the foundation of our approach, we endeavor to understand the long-term sustainability of a company's business model from initial due diligence through the life of the investment, and oftentimes beyond our investment holding period. By doing this, alongside more traditional financial metrics and analysis, we believe we are better informed to make investment decisions and subsequently better positioned to help our clients achieve their goals. As an investment manager, it is our fiduciary duty to act in the best interest of our clients and we believe this holistic framework supports our main objective of successful execution of our investment philosophy and process with the goal of preserving and growing our clients' capital while seeking to mitigate risk.

In the context of our investment philosophy and process, material sustainability factors are those that we believe may have a significant impact, either positive (as it pertains to opportunities) or negative (as it pertains to risks) on the companies in which we invest. We deem a sustainability-factor as material when it has the potential to influence an investment's risk/return profile such that it significantly alters our view of the attractiveness of a business. This can include potential environmental impacts, relationships with stakeholders, quality of management and organizational transparency. We believe this is an integral part of our assessment of the quality characteristics of any business.

### How Does Aristotle Capital Approach Stewardship?

We view our sustainability and stewardship initiatives as a long journey that will continue to evolve over time. Through numerous conversations with our clients, we realized the need to formalize our approach to stewardship and created our Stewardship Policy. Our stewardship activities include but are not limited to: (i) incorporating sustainable investing risks and opportunities into our investment philosophy and process (ii) engaging, as appropriate, with the companies we are invested in (iii) voting proxies with the goal of promoting issues that are relevant to the long-term sustainability of our investments and the economic interest of our clients' capital and (iv) working with like-minded peers to further our organization's understanding of stewardship by increasing our involvement in organizations with fellow asset managers, asset owners and other industry experts to stay current with the latest standards and best practices as our approach to stewardship evolves over time.

### Internal Reporting

Our Sustainability Team maintains an internally developed tracker to share ESG controversies and risk data with analysts and other firm members. This tracker provides members of our investment team with easy access to information about individual companies, as well as information on the holdings in a particular strategy, which assist in setting priorities for engagements. We also have a centralized location accessible via the cloud, where we can access full engagement notes (as well as a high-level summary), educational resources on ESG and a tracker on activities our team undertakes (e.g. participation in forums, classes, courses etc.) Organizing our information internally continues to be a key priority of our Sustainability Team as this allows us to better share information, resources, plan each period and review our progress.

### External Reporting

We report on our sustainability initiatives and progress to clients that request such updates, either by completing their specific reports, or by conducting meetings with them. Our goal is to be a partner to our clients and work with them to provide them with information they deem relevant.

### Conflicts of Interest

Throughout our investment process we recognize that conflicts of interest may arise in connection with responsible investment matters. At Aristotle Capital, we acknowledge our responsibility as a fiduciary to our clients and always seek to act in their best interests. As such, we take all reasonable steps to identify actual or potential conflicts and seek to minimize the possibility of such conflicts which have the potential to result in material risks or damage to our clients' interests. Our firm's Compliance Manual and Code of Ethics have detailed guidelines in place to mitigate potential conflicts of interest. Any potential conflicts of interest must be disclosed to the Chief Compliance Officer.



## GENERAL GUIDELINES ON SUSTAINABILITY FACTORS

Our bottom-up security selection process begins with our team discerning companies that meet our quality criteria. Such quality criteria include environmental, social and governance considerations as highlighted below:



### Guidelines on Environmental Factors

We prefer companies that:

- Are led by management teams that recognize the current and future effects of environmental risks and/or opportunities
- Consume, extract and/or dispose of natural resources in a way that minimizes the impact on the environment
- Minimize the risks of environmental liabilities



### Guidelines on Social Factors

We prefer companies that:

- Reward talent and provide policies to hire and retain its employees
- Prioritize employee safety
- Have management teams and organizations that represent diversity of thought, experience and background.

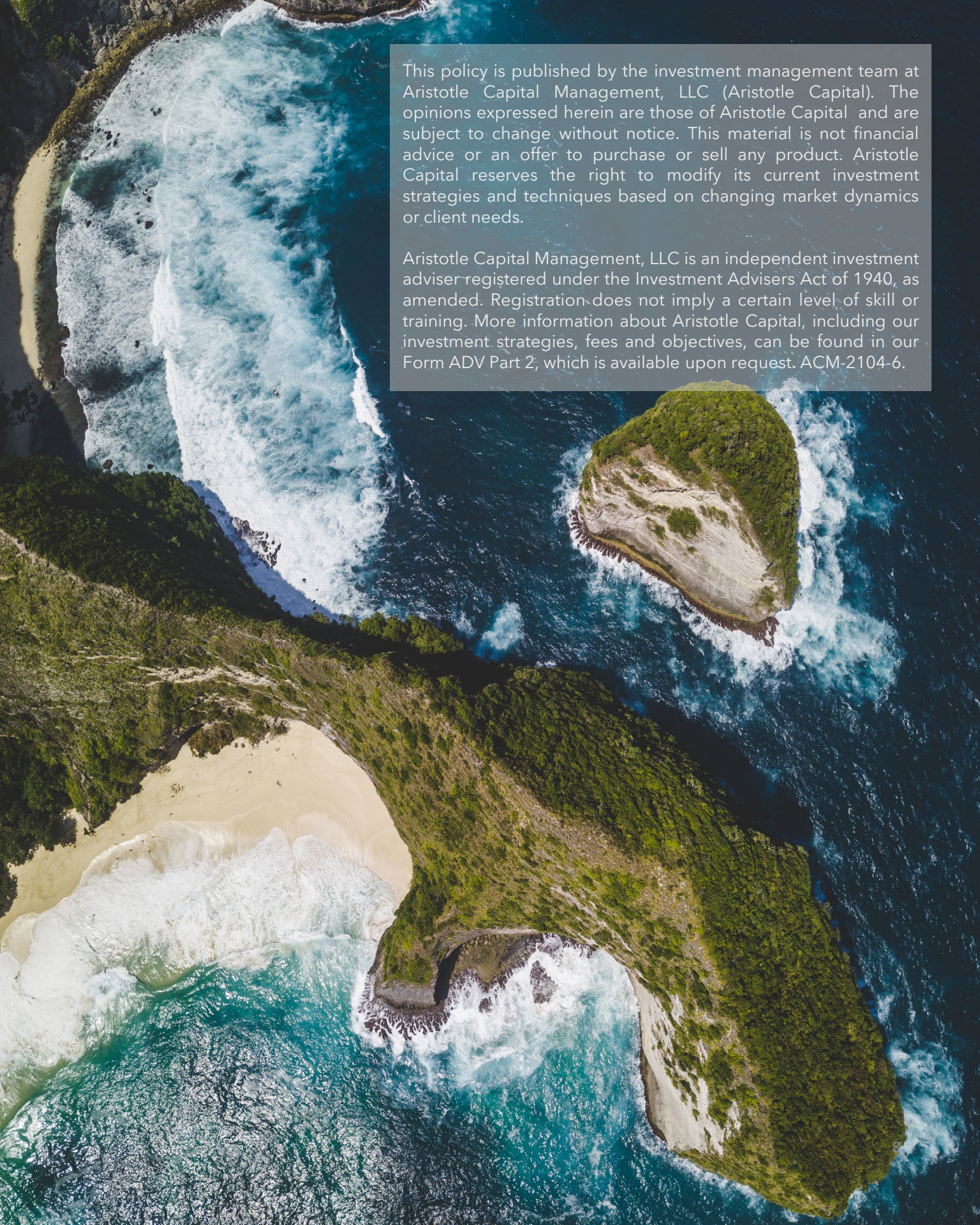


### Guidelines on Governance Factors

We prefer companies with:

- Compensation aligned with a long-term focus
- Meaningful ownership by senior executives
- Long-term targets focusing on value creation rather than short-term stock performance



An aerial photograph of a tropical coastline. In the upper left, a sandy beach meets the turquoise ocean. A large, dark rock formation juts out into the water, with white waves crashing against its base. The coastline is covered in lush green vegetation. The water transitions from a light turquoise near the shore to a deeper blue further out.

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